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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 19, 2002

APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY

CASE NO. PUE010312

For a general increase in rates

FINAL ORDER

On May 30, 2001, Virginia-American Water Company ("Virginia-American" or "Company") completed its application for an expedited increase in rates. Those rates, due to become effective June 28, 2001, were designed to increase annual operating revenues by \$997,436. The Company proposed that the increase be allocated among its three operating districts as follows: \$181,430 for the Alexandria District; \$816,006 for the Hopewell District; and \$0 for the Prince William District.

In addition to the rate increase, the Company proposed to revise Rule 14 in its tariff. Such revision would require the owner of property with two or more family units to be responsible for water service furnished to that premise until the Company was notified to discontinue such service.

On June 7, 2001, the Staff of the State Corporation Commission ("Staff") filed a motion requesting that the Company's application be docketed as an application for a general rate increase. In its Motion, Staff stated that the

Company's application did not conform to the requirements established by the Commission's Rules Governing Utility Rate Increase Applications and Annual Informational Filing, 20 VAC 5-200-30. Staff argued that the Company had experienced a "substantial change in circumstances" since its last rate case. In its application, the Company did not include schedules for non-potable water service to industrial customers that had been approved in the Company's last rate case. Staff noted that the Company appeared to be reallocating costs previously allocated to the approved non-potable classes to other customer classes.

On June 13, 2001, the Company filed a response to Staff's motion wherein it stated that it did not believe the change from the approved non-potable service to other customers classes would require that its application be converted into a general rate case. The Company, however, stated that it would not oppose converting the case into a general rate case on the condition that its rates be allowed to go into effect immediately following notice to the public.

On June 20, 2001, the Commission entered an order docketing the Company's application as a general rate case; requiring the Company to provide notice to the public of its application; suspending the Company's proposed rates, charges, and tariff revisions for thirty days; and permitting the rates to go into effect on an interim basis effective July 20, 2001, subject to

refund with interest. That Order also assigned the matter to a Hearing Examiner.

Pursuant to the June 20, 2001, Order, the City of Hopewell (the "City") and the Hopewell Committee for Fair Water Rates ("Committee")¹ filed notices of participation in the proceeding.

A hearing was convened as scheduled on November 14, 2001. The Company's proof of notice was accepted into the record. No public witness appeared. At the hearing, the Hearing Examiner granted Staff's motion to continue the evidentiary hearing to November 28, 2001, to allow the parties additional time to continue to resolve the outstanding issues in the case.

Pursuant to Hearing Examiner's Ruling entered on November 21, 2001, the evidentiary hearing scheduled for November 28, 2001, was continued generally, and the parties were provided with an additional opportunity to supplement their prefiled testimony.

Subsequently, by Hearing Examiner's Ruling entered on November 26, 2001, the evidentiary hearing was further continued to December 19, 2001.

At the evidentiary hearing convened on December 19, 2001, Virginia-American, the Commission Staff, and the Committee

¹ The members of the Hopewell Committee for Fair Water Rates are as follows: Congentrix, Goldschmidt Chemical Company, Hercules Incorporated, Honeywell, Hopewell Cogeneration Facility, James River Cogeneration, PraxAir, Inc., and Smurfit-Stone Container.

offered for Commission consideration a Stipulation that resolved or deferred until the Company's next rate case the outstanding issues in the case. That Stipulation was accepted into the record and is attached hereto as Attachment A. Pursuant to the Stipulation, the parties' and Staff's testimonies were marked and accepted into the record without cross-examination.

The Stipulation addresses revenue changes for the Hopewell District, allocation of the revenue change among the industrial and domestic classes in the Hopewell Operating District, the refund in the Alexandria and Hopewell Operating Districts, and the deferral of certain costs associated with the physical security of the Company's water facilities in the Hopewell Operating District. The Stipulation also addresses the return on equity benchmark that will be used for determining overearnings and potential regulatory asset write-offs for certain future earnings tests, and the cost of service study for potable and non-potable service that the Company will file in its next rate case.

The Company and Staff agreed to adopt specific accounting adjustments proposed by Staff, subject to certain modifications. Although the City and the Committee did not adopt those adjustments, they did not oppose them.

On January 23, 2002, Hearing Examiner Michael D. Thomas filed his Report. The Hearing Examiner found that an annual

increase of \$674,000 for the Hopewell District was reasonable and should be approved. The Hearing Examiner also found that the stipulated allocation of the revenue increase among the Company's industrial tariffed class and its domestic tariffed class and the resulting water rates for those classes was not unjust, unreasonable, insufficient, or unjustly discriminatory or preferential, or otherwise in violation of the laws of the Commonwealth of Virginia. The Hearing Examiner recommended that the Commission enter an order adopting the findings of his Report and approving the proposed revenue increase, rates, refunds, and proposals and recommendations set forth in the Stipulation. The Examiner noted that the proposed revision to Rule 14 in the Company's tariff was not addressed in the Stipulation.

By letter filed on January 31, 2002, counsel for the Company urged the Commission to adopt the Hearing Examiner's Report and stated that the Company no longer requested revisions to Rule 14 in this proceeding.

NOW THE COMMISSION, having considered the record, the Stipulation, and the Hearing Examiner's Report, is of the opinion and finds that the Hearing Examiner's findings and recommendations should be approved. We will approve the proposed revenue increase, rates, refunds, and proposals set forth in the Stipulation and Attachment A attached hereto.

Accordingly, IT IS ORDERED THAT:

(1) The findings and recommendations set forth in the January 23, 2002, Hearing Examiner's Report are hereby adopted.

(2) The Stipulation referenced herein and Attachment A attached hereto are hereby approved.

(3) On or before March 1, 2002, Virginia-American shall submit to the Commission's Division of Energy Regulation appropriate tariff schedules, rates, and charges, rules and regulation designed to produce an increase in gross annual revenues of \$674,000 for the Hopewell Operating District, effective for service rendered on and after July 20, 2001.

(4) On or before August 31, 2002, Virginia-American shall recalculate, using the rates and charges prescribed by ordering paragraph (3) of this Final Order, each bill it rendered that used, in whole or in part, the rates and charges that took effect under bond and subject to refund on July 20, 2001. In each instance where application of the rates prescribed by this Final Order results in a reduced bill to the customers in the Alexandria and Hopewell Operating Districts, Virginia-American shall refund with interest the difference.

(5) Interest upon the ordered refunds shall be computed from the date payments of monthly bills were due to the date the refunds are made, at the average prime rate for each calendar quarter, compounded quarterly. The average prime rate for each

calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin or in the Federal Reserve's Selected Interest Rates (Statistical Release H.15) for the three months of the preceding calendar quarter.

(6) The refunds ordered in above-referenced ordering paragraph (4) may be credited to current customers' accounts (each refund category shall be shown separately on each customer's bill). Refunds to former customers shall be made by check mailed to the last known address of such customers when the refund amount is \$1 or more. Virginia-American may offset the credit or refund to the extent no dispute exists regarding the outstanding balance of a current or former customer. Notice of the offset shall be given to the customer. No offset shall be permitted for the disputed portion of an outstanding balance. Virginia-American may retain refunds owed to former customers when such refund amount is less than \$1. Virginia-American shall maintain a record of former customers for which the refund is less than \$1, and such refunds shall be made promptly upon request. All unclaimed refunds shall be subject to § 55-210.6:2 of the Code of Virginia.

(7) On or before September 30, 2002, Virginia-American shall submit to the Commission's Divisions of Public Utility Accounting and Energy Regulation a report showing refunds made

pursuant to this Final Order and detailing the costs of the refund and accounts charged. Costs shall include, inter alia, computer costs, and the personnel hours, associated salaries, and costs for verifying and correcting the refunds directed in this Final Order.

(8) This case is hereby dismissed from the Commission's docket of active cases.